LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Member Contributions to Benefit Improvement Account

Preliminary Report

April 28, 2010

1. Issue

The LEOFF Plan 2 Retirement Board (Board) does not have the authority to charge additional contributions to members only for the purpose of funding benefit improvements.

2. Staff

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3. Members Impacted

This would impact all active members. According to the *2008 Actuarial Valuation Report* provided by the Office of the State Actuary (OSA), there are 16,626 active members as of June 30, 2008.

4. Current Situation

Under the current laws, member benefits are funded through contributions as a percentage of salary and investment earnings from the benefit fund. The current contribution rate is 16.92% and is split between the members, the employers and the state. The members pay 50%, the employers pay 30% and the state pays 20%.

During the 2008 legislative session the Legislature passed an alternate revenue bill (ESSB 6573) which created another source for funding benefit improvements.

5. Background Information and Policy Issues

When LEOFF Plan 2 was created in October of 1977 the plan was designed to be funded by having the members, the employers and the state make contributions based as a percentage of salary. In addition to the contributions made, the investment earnings on those contributions and future contributions would fund the plan. Any benefit improvements made to the plan would have to be funded through increased contribution rates. This can limit the number and size of benefit improvements because of the competition for budget dollars for employers and the state.

In response to these possible limitations, the Board introduced legislation creating an avenue for additional funding to improve member's benefits. The legislation that was passed is often referred to as the "alternate revenue" bill. This bill calls for a plan whereby the benefit fund can receive additional revenue from the general state revenues. However, in order for that transfer to take place, two things need to happen. First, the general state revenues need to exceed the previous fiscal biennium's revenue by five percent and the Legislature must also appropriate the funds. If both conditions are met, the transfers begin in 2011 and continue by September 30 of odd-numbered years in each subsequent fiscal biennium. The amounts that can be transferred are $2.5 million for 2011, $5 million in 2013, $10 million in 2015, $25 million in 2017, and in subsequent fiscal biennium the lesser of one-third of the general state revenue increase or $25 million.

Another possible source of funds that has been suggested is additional member contributions. These contributions would not be tied to existing benefits nor would it change the current funding practice in place where members, employers and the state share in a 50%, 30%, 20% split respectively.

Policy Issues

The Board would need to determine whether or not they should adopt a policy that would allow members to contribute directly into the benefit improvement account. There are several key points to consider if such a policy is adopted. One factor to consider is the level of the contribution rate needed in order to raise enough revenue to pay for a benefit improvement. Another issue may be whether or not a member would be willing to make contributions if they may retire before the benefit improvement is in place. A third point is the precedence it may set for funding future benefit enhancements. This may be seen as a new method of funding benefit improvements instead of the traditional method of sharing the cost with employers and the state

Revenue Generation

An example of the revenue the member only contributions could raise can be seen in Appendix A. In this example OSA used a 1% contribution rate on all member salaries to calculate the possible revenue that could be generated.

6. Supporting Information

Appendix A: Member Contribution into the Benefit Improvement Account – Office of the State Actuary (November 2009)